

# The Vault

A Midwest Bank  
Newsletter

Midwest Bank Index Performance (shown as % change)



Indices Performance (% change)

	October 2018	LTM		October 2018	LTM
S&P 500	(7.3%)	5.3%	SNL U.S. Bank	(5.4%)	(2.6%)
Dow Jones	(5.8%)	7.4%	SNL Midwest U.S. Bank	(4.9%)	(2.8%)
NASDAQ	(9.1%)	8.6%			

Note: U.S. Bank index includes banks which trade on all Major Exchanges (NYSE, NYSE Amex, NASDAQ). Midwest region includes banks which trade on all Major Exchanges (NYSE, NYSE Amex, NASDAQ) headquartered in IA, IN, IL, KS, KY, MI, MN, MO, ND, NE, OH, SD, WI.

Movers and Losers (largest % changes in the month of October)

Bank Name	Price/Share	Price Change	Bank Name	Price/Share	Price Change
Bancorp, Inc. (TBBK)	\$10.50	11.6%	Live Oak Bancshares, Inc. (LOB)	\$18.40	(30.0%)
ACNB Corporation (ACNB)	\$40.10	9.3%	Opus Bank (OPB)	\$18.99	(29.0%)
OFG Bancorp (OFG)	\$17.09	8.6%	Bank of the Ozarks (OZK)	\$27.36	(27.1%)
First Foundation Inc. (FFWM)	\$16.21	6.2%	SVB Financial Group (SIVB)	\$237.23	(24.0%)
Century Bancorp, Inc. (CNBK.A)	\$75.12	4.1%	Pacific Premier Bancorp (PPBI)	\$29.23	(19.7%)

Note: Price per share as of October 31, 2018. Consists of public banks listed on the NYSE and NASDAQ with a market capitalization greater than \$150 million.

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## Select Public Trading Statistics (as of 10/31/2018)

### Large U.S. National Banks:

Institution Name	Ticker	State	Market		NPAs/ Assets (%)	Net Interest Margin (%)	Efficiency Ratio (%)	Risk-based Capital Ratio (%)	Leverage Ratio (%)	Price/ Book (%)	Price/ Tangible Book (%)
			Capitalization (\$ in millions)	Total Assets (\$ in thousands)							
JPMorgan Chase & Co.	JPM	NY	362,484.7	2,615,183,000	0.40	2.53	56.51	15.42	8.25	156.8	198.2
Bank of America Corp.	BAC	NC	269,890.4	2,338,833,000	0.49	2.44	57.17	14.74	8.31	113.0	160.4
Wells Fargo & Company	WFC	CA	250,566.6	1,872,981,000	0.97	2.95	63.36	16.73	9.22	141.7	164.2
Citigroup Inc.	C	NY	159,862.3	1,925,165,000	0.43	2.79	57.70	15.98	8.49	89.8	104.5
U.S. Bancorp	USB	MN	84,473.2	464,607,000	0.70	3.16	52.79	12.58	8.98	191.1	247.8
PNC Financial Services Group, Inc.	PNC	PA	59,395.4	380,080,000	0.75	3.02	58.95	12.74	9.21	137.8	176.7
Bank of New York Mellon Corporation	BK	NY	46,798.8	349,770,000	0.03	1.28	66.15	14.11	7.03	123.1	269.4
BB&T Corporation	BBT	NC	37,883.7	222,885,000	NA	3.49	57.26	13.94	9.97	140.9	232.8
SunTrust Banks, Inc.	STI	GA	28,737.5	211,276,000	1.45	3.29	59.74	12.47	9.66	130.5	183.4
State Street Corporation	STT	MA	26,089.9	234,007,000	0.00	1.49	68.56	17.23	8.12	125.1	194.9
<b>Minimum</b>			<b>26,090</b>	<b>211,276,000</b>	<b>0.0</b>	<b>1.3</b>	<b>52.8</b>	<b>12.5</b>	<b>7.0</b>	<b>89.8</b>	<b>104.5</b>
<b>Mean</b>			<b>132,618</b>	<b>1,061,478,700</b>	<b>0.6</b>	<b>2.6</b>	<b>59.8</b>	<b>14.6</b>	<b>8.7</b>	<b>135.0</b>	<b>193.2</b>
<b>Median</b>			<b>71,934</b>	<b>422,343,500</b>	<b>0.5</b>	<b>2.9</b>	<b>58.3</b>	<b>14.4</b>	<b>8.7</b>	<b>134.2</b>	<b>189.2</b>
<b>Maximum</b>			<b>362,485</b>	<b>2,615,183,000</b>	<b>1.5</b>	<b>3.5</b>	<b>68.6</b>	<b>17.2</b>	<b>10.0</b>	<b>191.1</b>	<b>269.4</b>

### Large Midwest Banks:

Institution Name	Ticker	State	Market		NPAs/ Assets (%)	Net Interest Margin (%)	Efficiency Ratio (%)	Risk-based Capital Ratio (%)	Leverage Ratio (%)	Price/ Book (%)	Price/ Tangible Book (%)
			Capitalization (\$ in millions)	Total Assets (\$ in thousands)							
Northern Trust Corporation	NTRS	IL	20,826.7	132,378,500	0.12	1.49	67.22	16.19	7.80	219.6	240.3
KeyCorp	KEY	OH	18,787.1	138,805,000	0.60	3.21	60.30	12.99	10.03	136.5	172.0
Fifth Third Bancorp	FITB	OH	17,695.1	141,685,000	0.74	3.25	61.86	14.94	10.10	123.1	148.6
Huntington Bancshares Incorporated	HBAN	OH	15,211.7	105,652,000	1.17	3.35	55.63	13.36	9.14	156.3	204.7
Commerce Bancshares, Inc.	CBSH	MO	6,765.3	25,062,392	0.44	3.55	55.18	15.68	11.38	255.0	269.3
Wintrust Financial Corporation	WTFC	IL	4,293.7	30,142,731	0.58	3.64	60.07	11.90	9.30	140.5	172.4
Associated Banc-Corp	ASB	WI	3,877.9	33,489,002	0.76	2.93	63.42	13.56	8.43	110.8	171.1
MB Financial, Inc.	MBFI	IL	3,738.5	19,719,971	NA	3.86	62.29	13.48	9.99	134.9	217.2
First Midwest Bancorp, Inc.	FMBI	IL	2,442.5	14,961,499	0.52	3.95	54.98	12.32	9.10	123.4	202.9
First National of Nebraska, Inc.	FINN	NE	2,317.7	20,505,910	NA	6.61	56.11	14.18	10.94	110.9	120.5
<b>Minimum</b>			<b>2,318</b>	<b>14,961,499</b>	<b>0.1</b>	<b>1.5</b>	<b>55.0</b>	<b>11.9</b>	<b>7.8</b>	<b>110.8</b>	<b>120.5</b>
<b>Mean</b>			<b>9,596</b>	<b>66,240,201</b>	<b>0.6</b>	<b>3.6</b>	<b>59.7</b>	<b>13.9</b>	<b>9.6</b>	<b>151.1</b>	<b>191.9</b>
<b>Median</b>			<b>5,530</b>	<b>31,815,867</b>	<b>0.6</b>	<b>3.4</b>	<b>60.2</b>	<b>13.5</b>	<b>9.6</b>	<b>135.7</b>	<b>187.6</b>
<b>Maximum</b>			<b>20,827</b>	<b>141,685,000</b>	<b>1.2</b>	<b>6.6</b>	<b>67.2</b>	<b>16.2</b>	<b>11.4</b>	<b>255.0</b>	<b>269.3</b>

### Small Midwest Banks:

Institution Name	Ticker	State	Market		NPAs/ Assets (%)	Net Interest Margin (%)	Efficiency Ratio (%)	Risk-based Capital Ratio (%)	Leverage Ratio (%)	Price/ Book (%)	Price/ Tangible Book (%)
			Capitalization (\$ in millions)	Total Assets (\$ in thousands)							
Byline Bancorp, Inc.	BY	IL	798.2	4,917,409	0.56	4.77	56.45	13.37	10.78	128.9	174.8
Horizon Bancorp, Inc.	HBNC	IN	643.0	4,150,561	0.40	3.64	58.80	13.31	10.05	134.6	185.4
First Mid-Illinois Bancshares, Inc.	FMBH	IL	570.2	3,355,477	0.90	3.96	51.49	14.62	11.24	136.8	179.9
West Suburban Bancorp, Inc.	WNRP	IL	286.5	2,255,630	2.20	3.21	68.86	15.88	9.83	132.1	132.5
STAR Financial Group, Inc.	SFIGA	IN	237.2	1,937,352	1.45	3.78	66.22	13.91	10.37	113.0	116.1
First Business Financial Services, Inc.	FBIZ	WI	184.0	1,894,330	1.70	3.75	71.63	12.05	9.34	103.7	110.4
Marquette National Corporation	MNAT	IL	145.3	1,591,517	1.33	3.52	77.25	16.29	9.31	98.3	128.7
<b>Minimum</b>			<b>145</b>	<b>1,591,517</b>	<b>0.4</b>	<b>3.2</b>	<b>51.5</b>	<b>12.1</b>	<b>9.3</b>	<b>98.3</b>	<b>110.4</b>
<b>Mean</b>			<b>409</b>	<b>2,871,754</b>	<b>1.2</b>	<b>3.8</b>	<b>64.4</b>	<b>14.2</b>	<b>10.1</b>	<b>121.0</b>	<b>146.8</b>
<b>Median</b>			<b>287</b>	<b>2,255,630</b>	<b>1.3</b>	<b>3.7</b>	<b>66.2</b>	<b>13.9</b>	<b>10.1</b>	<b>128.9</b>	<b>132.5</b>
<b>Maximum</b>			<b>798</b>	<b>4,917,409</b>	<b>2.2</b>	<b>4.8</b>	<b>77.3</b>	<b>16.3</b>	<b>11.2</b>	<b>136.8</b>	<b>185.4</b>





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## Valuation Summary (as of 10/31/2018)

Asset Size Index – Nationwide			Geographic Index		
	Price/Book (%)	Price/Tangible Book (%)		Price/Book (%)	Price/Tangible Book (%)
\$5B-\$10B	178.5	227.4	Mid-Atlantic	135.5	178.7
\$1B-\$5B	150.9	177.1	Midwest	169.9	214.6
\$500M-\$1B	162.4	170.3	New England	125.7	184.7
\$250M-\$500M	173.9	176.7	Southeast	118.3	169.9
< \$250M	NA	NA	Southwest	165.4	203.4
			Western	151.5	217.7

## Interest Rate Scorecard

Financial Yields	October 31, 2018	1 Month	3 Month	6 Month	1 Year
		Prior	Prior	Prior	Prior
2 Year T Note	2.87	2.81	2.67	2.49	0.27
5 Year T Note	2.98	2.94	2.85	2.79	0.82
10 Year T Note	3.15	3.05	2.96	2.95	1.95
30 Year T Bond	3.39	3.19	3.08	3.11	3.12
Prime Rate	5.25	5.25	5.00	4.75	3.25
3 Month LIBOR	2.56	2.40	2.35	2.36	0.47

*Note:*

Mid-Atlantic region includes banks which trade on all Major Exchanges (NYSE, NYSE Amex, NASDAQ) headquartered in DE, DC, MD, NJ, NY, PA, PR.  
 Midwest region includes banks which trade on all Major Exchanges (NYSE, NYSE Amex, NASDAQ) headquartered in IA, IN, IL, KS, KY, MI, MN, MO, ND, NE, OH, SD, WI.  
 New England region includes banks which trade on all Major Exchanges (NYSE, NYSE Amex, NASDAQ) headquartered in CT, ME, MA, NH, RI, VT.  
 Southeast region includes banks which trade on all Major Exchanges (NYSE, NYSE Amex, NASDAQ) headquartered in AL, AR, FL, GA, MS, NC, SC, TN, VA, WV.  
 Southwest region includes banks which trade on all Major Exchanges (NYSE, NYSE Amex, NASDAQ) headquartered in CO, LA, NM, OK, TX, UT.  
 Western region includes banks which trade on all Major Exchanges (NYSE, NYSE Amex, NASDAQ) headquartered in AZ, AK, CA, HI, ID, MT, NV, OR, WA, WY.





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## Select Mergers and Acquisitions & Capital Raising News

### ❖ First Merchants Acquiring MBT Financial in \$290.9M Transaction

October 10, 2018 – Muncie, Indiana-based First Merchants Corp. has agreed to acquire Monroe, Michigan-based MBT Financial Corp. in an all-stock transaction valued at approximately \$290.9 million. Upon completion of the merger, Monroe Bank & Trust will merge with and into First Merchants Bank. MBT Financial has total assets of \$1.3 billion, total loans of \$733 million and total deposits of \$1.1 billion, according to the news release. The combined institution will have approximately \$11 billion in assets, 134 banking offices in 31 Indiana counties and two counties each in Michigan, Ohio and Illinois. For each MBT Financial common share held, MBT Financial shareholders will receive 0.275 of a share of First Merchants common stock. Based on First Merchants' per-share closing price of \$45.71 on Oct. 9, MBT Financial's implied price is \$12.57 per share. On a per-share basis, the purchase price equates to 240.1% of book, 240.1% of tangible book and 23.3x earnings. The purchase price also equates to 21.98% of assets, 25.32% of deposits and the tangible book premium-to-deposits ratio is 14.83%. The transaction has a one-day premium of 9.31%, based on MBT Financial's closing price of \$11.50 as of Oct. 9, and a one-month premium of 13.76%, based on MBT Financial's closing price of \$11.05 as of September 10. The transaction is expected to be completed in the first quarter of 2019. The combined company, doing business as First Merchants Bank, expects to complete its integration during the third quarter of 2019. First Merchants anticipates EPS accretion of approximately 2.7% in 2020, resulting in a tangible book value earnback of 3.3 years.

### ❖ First Savings Bank Seeks to Acquire Roberts County National Bank of Sisseton

October 12, 2018 – Beresford, South Dakota-based First Savings Bank, a unit of Beresford Bancorp Inc., has applied to buy Sisseton, South Dakota-based Roberts County National Bank of Sisseton, according to the Office of the Comptroller of the Currency's website. First Savings Bank had about \$739.4 million in total assets as of June 30, and Roberts County National Bank of Sisseton had total assets of \$54.5 million as of September 30.

### ❖ Kentucky Federal Savings and Loan Association Merges into Cincinnati Federal

October 12, 2018 – Kentucky Federal Savings and Loan Association merged into Cincinnati Bancorp (MHC) subsidiary Cincinnati Federal (MHC), effective October 12. As a result of the merger, Kentucky Federal's three banking offices now operate as branches of Cincinnati Federal under the name "Kentucky Federal, A Division of Cincinnati Federal." Kentucky Federal's depositors and borrowers as of the effective date of the merger became depositors and borrowers of Cincinnati Federal and members of Cincinnati Federal's parent mutual holding company, CF Mutual Holding Co.

### ❖ Chicago-based Byline Bancorp Buying Oak Park River Forest in \$42M Transaction

October 17, 2018 – Chicago-based Byline Bancorp Inc., the holding company of Byline Bank, is acquiring Oak Park, Illinois-based Oak Park River Forest Bankshares Inc. in a cash-and-stock transaction valued at about \$42.0 million. The total transaction value is based on Byline Bancorp's \$21.30 closing share price on October 17. Under the terms of the transaction, each outstanding common share of Oak Park River Forest will be converted into the right to receive 7.9321 common shares of Byline Bancorp and \$33.38 in cash, upon the closing of the transaction. Byline Bancorp currently estimates pretax expense reductions associated with the transaction to be approximately 40% of Oak Park River Forest's unit Community Bank of Oak Park River Forest's expense base. Byline Bancorp expects the transaction to be approximately 5.5% accretive to earnings per share in 2020, excluding one-time merger-related transaction expenses, with an expected tangible book value per share dilution earnback period of about three years using the cross-over method. The transaction is expected to close in the second quarter of 2019.

### ❖ Blackhawk Bancorp Buying First McHenry Corp.

October 18, 2018 – Beloit, Wisconsin-based Blackhawk Bancorp Inc. signed a definitive merger agreement with McHenry, Illinois-based First McHenry Corp. to acquire all of the common shares of First McHenry for approximately \$23.0 million in aggregate cash consideration. The transaction is expected to close in the first quarter of 2019. On an aggregate basis, the purchase price equates to 154.1% of book, 155.1% of tangible book and 25.0x earnings. The purchase price also equates to 13.10% of assets, 14.33% of deposits and the tangible book premium-to-core deposits ratio is 5.41%. First McHenry is the parent of First National Bank of McHenry, which had approximately \$175 million in assets, \$45 million in loans and \$160 million in deposits at June 30, according to the merger release. Blackhawk Bancorp had \$772.4 million in assets as of September 30.



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## ❖ Peoples Bancorp Buying First Prestonsburg Bancshares in \$45M Transaction

October 29, 2018 – Marietta, Ohio-based Peoples Bancorp Inc. is acquiring Prestonsburg, Kentucky-based First Prestonsburg Bancshares Inc. in a transaction valued at approximately \$45.4 million. Under the terms of the transaction, First Prestonsburg Bancshares will merge into Peoples Bancorp, and First Commonwealth Bank of Prestonsburg Inc., a unit of First Prestonsburg Bancshares, will merge into Peoples Bank, a unit of Peoples Bancorp. Upon the completion of the transaction, shareholders of First Prestonsburg Bancshares will receive 12.512 common shares of Peoples Bancorp for each common share of First Prestonsburg Bancshares stock. In addition, immediately prior to the closing of the transaction, First Prestonsburg Bancshares will pay a special aggregate cash distribution of about \$11.3 million to its shareholders. On an aggregate basis, the purchase price equates to 173.9% of book, 198.1% of tangible book, and 14.4x earnings. The purchase price also equates to 11.44% of assets, 13.85% of deposits and the tangible book premium-to-core deposits ratio is 8.17%. The transaction is expected to be immediately accretive to Peoples Bancorp's estimated earnings before one-time costs, with a tangible book value earnback of about two years and an internal rate of return that surpasses internal thresholds. First Prestonsburg Bancshares had about \$310 million in total assets, including about \$139 million in total loans and about \$244 million in total deposits, as of September 30. The transaction is expected to close in the second quarter of 2019.

## ❖ Michigan City, Indiana-based Horizon Bancorp Merging with Salin Bancshares

October 29, 2018 – Michigan City, Indiana-based Horizon Bancorp Inc. is merging with Indianapolis-based Salin Bancshares Inc. in a cash-and-stock transaction valued at approximately \$135.3 million. Horizon Bank, a unit of Horizon Bancorp, will also merge with Salin Bancshares' unit Salin Bank and Trust Co. The transaction value is based upon Horizon Bancorp's closing price of \$16.95 per share as of October 26. On an aggregate basis, the purchase price equates to 161.3% of book, 161.6% of tangible book, and 44.0x earnings. The purchase price also equates to 15.14% of assets, 18.65% of deposits and the tangible book premium-to-core deposits ratio is 7.39%. Upon the closing of the transaction, shareholders of Salin Bancshares will receive \$87,417.17 in cash and 23,907.5 common shares of Horizon Bancorp for each common share of Salin Bancshares. The transaction is expected to close in the first quarter of 2019. As of September 30, Salin Bancshares had approximately \$918.4 million in total assets, while Horizon Bancorp had total assets of \$4.2 billion.

## ❖ Geneva State to Acquire Jefferson County Bancshares, First National Fairbury

October 30, 2018 – Geneva, Nebraska-based Geneva State Co. seeks to purchase all of the issued and outstanding capital stock of Daykin, Nebraska-based Jefferson County Bancshares Inc. and Fairbury, Nebraska-based First National Fairbury Corp. Heartland Bank, a subsidiary of Geneva State, also seeks to acquire the assets and assume the deposit liabilities of Jefferson County Bank and First National Bank of Fairbury. Terms of the transactions were redacted from the October 15 merger applications filed with the Federal Deposit Insurance Corp. and the Nebraska Department of Banking and Finance. Both transactions are targeted to close on January 1, 2019. The transaction could be terminated if they fail to close by March 31, 2019. As of September 30, Heartland Bank had approximately \$442.4 million in total assets, Jefferson County Bank had approximately \$41.3 million in total assets, and First National Bank of Fairbury had approximately \$143.9 million in total assets.

## ❖ Bank M&A Scoreboard Q3'18

October 17, 2018 – Sixty bank M&A transactions were announced or completed during the third quarter, down from 83 in the prior quarter and 61 in the third quarter of 2017. Aggregate transaction value rose to \$8.35 billion in the third quarter from \$5.25 billion in the year-ago quarter, and the median price-to-tangible book value for announced transactions dropped to 164.02%, compared to 173.99%.

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## Select Industry News

### ❖ US Banks Holding More Bonds to Maturity as Unrealized Losses Hit \$24B

October 2, 2018 – While rising rates are a tailwind for bank earnings, they are also pushing up unrealized losses in banks' securities books. That has led many bankers to turn to a strategy that carries its own risks: holding more securities through to maturity. In the second quarter, publicly traded banks and thrifts reported \$24.3 billion of net unrealized losses, higher than the \$19.8 billion of losses reported in the first quarter. The unrealized losses do not affect earnings, but they do flow through accumulated other comprehensive income and tangible common equity. Tangible book value growth is a key metric for investors, and the negative effects on equity can affect key regulatory capital figures, such as the leverage ratio, for some of the largest U.S. banks. Banks' securities holdings have turned negative due to rising rates, which depress the value of bonds. Many banks have responded by increasing the portion of securities in their held-to-maturity, or HTM, portfolios, as opposed to available-for-sale, or AFS, portfolios. Unrealized losses accrue when there is a drop in the value of securities in AFS portfolios, which banks have to mark to market.



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Securities in HTM do not need to be marked to market. Across all publicly traded banks, HTM portfolios accounted for 29.6% of total securities in the second quarter, up from 27.9% in the first quarter and 27.7% a year ago. Five years ago, in the 2013 second quarter, the portion was just 11.8%.

## ❖ Credit Union Branch Growth Slows in Q3, Chicago's Alliant Closes 9

October 12, 2018 – U.S. credit unions added only two new branches in the third quarter, down from 11 net openings in the second quarter. As of September 30, there were 21,254 active credit union branches in the U.S., up 47 year over year. Chicago-based Alliant CU closed nine of its branches during the third quarter, the most of any credit union, and closed another branch on October 3. The company is now operating with only two active branches and only one of these is open to the public as it continues its transition toward digital banking, according to the company's website. The company is also considering M&A as a growth strategy, including buying a bank. Chubbuck, Idaho-based Idaho Central CU; Lathrup Village, Michigan-based Michigan First CU and Endicott, New York-based Visions FCU each added three net branches during the quarter, leading the country.

## ❖ Deposit Growth Remains Challenging for CUs, Community Banks Alike

October 15, 2018 – While concerns about deposit gathering among credit unions continue to fester, the sector hit a lending landmark in the second quarter of 2018. Deposits at credit unions increased 5.4% year over year to \$1.222 trillion in the second quarter, but growth at the end of the year-ago quarter was 8.11%. The industry's loan-to-deposit ratio rose to 82.89% at the end of the 2018 second quarter, up from 79.61% a year earlier. Money market deposit accounts and other savings deposits increased by \$32.57 billion over the year to total \$717.67 billion. Community bank deposits climbed 7.6% year over year, boosted by a \$94.78 billion increase in money market deposit accounts and other savings deposits, resulting in an aggregate loan-to-deposit ratio of 86.03%.

## ❖ Community Banks' Margins, Profitability Up So Far in Q3'18

October 24, 2018 – Among public banks and thrifts with less than \$10 billion in assets that reported third-quarter results as of Oct. 19, the median net interest margin was 3.73%, up 5 basis points year over year. Meanwhile, the median return on average assets increased 22 basis points to 1.23%. The median efficiency ratio also improved to 59.98% from 61.02%. Among banks with less than \$1 billion in assets, Springfield, Mo.-based Guaranty Federal Bancshares Inc. reported the highest net interest margin at 4.81% for the third quarter. Eleven of the 15 companies in the category reported improved net interest margins year over year, while nine posted a higher return on average assets. Philadelphia, Miss.-based Citizens Holding Co. reported the lowest net interest margin in the category at 3.07%. Dallas-based Triumph Bancorp Inc. reported the highest net interest margin among banks between \$1 billion and \$5 billion in assets, at 6.64%, while Belmont, Mass.-based BSB Bancorp Inc. reported the lowest net interest margin at 2.16%. Among the largest banks in the analysis, those between \$5 billion and \$10 billion in assets, Puerto Rico-based OFG Bancorp reported the highest net interest margin at 5.42%, while Pittsburgh-based TriState Capital Holdings Inc. had the lowest net interest margin at 2.24%.

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